



James G. Turino
Vice President
Investment Banking

Prudential Securities Incorporated
One New York Plaza, 18th Floor
New York NY 10292-2018
Tel 212 778-2356 Fax 212 778-5718

RECEIVED
MAR 10 1998
FCC MAIL ROOM

EX PARTE OR LATE FILED
March 6, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of Ex Parte Communication;
Broadband PCS C and F Block Installment
Payment Restructuring; WT Docket No. 97-82

Dear Ms. Salas:

On Tuesday, March 3, Michael Elling, Bo Fifer and the undersigned of Prudential Securities Inc. ("Prudential") met with Commissioner Tristani and Paul Gallant of the Commission to discuss issues in the above-referenced proceeding. The views expressed by Prudential's representatives are included in the attached material which was distributed at the meeting.

In accordance with Section 1.1206 of the Commission's rules, an original and two copies of this filing are being submitted to you today. Please direct any questions concerning this matter to me at (212) 778-2356.

Sincerely,

Attachment

cc: w/o attach - Commissioner Tristani

File to color rec'd
052

C-Block Reconsideration

Presentation to the FCC

March 3, 1998

- **The C-block is viable in spite of:**
 - ⇒ continued uncertainty on the C-Block restructuring
 - ⇒ the perception that C-block licensees overpaid.
- **The FCC can make the C-Block commercially viable and keep itself whole without affecting the NPV of the winning bids or the pro forma outcome of the auction.**
- **The outcome of the reconsideration is critical to the FCC in achieving its original goals: to foster competition and permit entry by small businesses and entrepreneurs.**

- **Significant C and F-Block goals achieved already by the FCC:**
 - ⇒ 1/3 of the PCS spectrum granted to small businesses/ entrepreneurs
 - ⇒ Drawn bids of over \$10 billion from over 160 designated entities
 - ⇒ Attracted over \$1 billion from US and foreign investors
 - ⇒ Catalyzed investment of an estimated \$500 mm in infrastructure
- **Rational modification of the C-block will:**
 - ⇒ help the FCC preserve the value of the original bids
 - ⇒ support the value of the C-block licenses.
- **The FCC is within reach of fulfilling its goals on the C-block and should not reverse the progress it has made to date.**

The C-Block has been impeded by:

- Delay in license grant
 - ⇒ meaningful and irrevocable competitive advantage to incumbents
- Suspended interest payments
 - ⇒ ongoing restructuring of the license obligations
 - ⇒ investment “frozen” by uncertainty
- Glut of spectrum
 - ⇒ driving values down
 - ⇒ creating investor confusion

- **Status Quo options currently available to the C-block will:**

- ⇒ Bolster incumbents' first mover competitive advantage
- ⇒ Permanently limit competitive entry into the wireless industry
- ⇒ Cement the stigma associated with the C-block in the investment community
- ⇒ Insure that C-block licensees remain out of the re-auction process
- ⇒ Enable incumbents to obtain control of valuable spectrum at fire sale prices
- ⇒ Reduce or eliminate access to PCS spectrum by the resale community

- **The digital wireless industry is only now beginning to show signs of operational success:**
 - ⇒ Strong subscriber gains
 - 40% of gross wireless subscriber adds
 - ⇒ High and in some cases *increasing* ARPUs
 - \$60.00 to \$70.00
 - ⇒ Higher than projected usage
 - 300 to 400 minutes
 - ⇒ Decreasing per-minute costs
 - as low as \$.10 retail (Sprint PCS)
 - ⇒ The public market value of Nextel, which has increased from \$20 to \$65 per POP over the past 6 months, has demonstrated the ability of the market to react quickly in re-evaluating positive operating news

Summary Recommendations

7

The reconsideration points put forth herein:

- ⇒ Reinforce the FCC's original intentions of the C-block
- ⇒ Promote the financial viability of C-block licensees
- ⇒ Do not affect the net present value (NPV) of the C-block assets
- ⇒ Do not affect the pro forma outcome of the auction
- ⇒ Do not constitute a free "giveback" by the FCC
- ⇒ Work for all C-Block licensees, large and small

Recommendations:

1. Permit use of full down payment for disaggregation and prepayment options
2. Allow flexible use of options on an MTA basis
3. Eliminate Suspension Interest
4. Permit C-block licensees to participate in the re-auction
5. Apply an NPV to the prepayment option
6. Capitalize interest for a period of five years

Recommendation 1

8

- Permit use of full down payment for disaggregation, prepayment options and early interest payments

Impact of 100% Down Payment Recovery for Top 20 BTAs

(Dollars in thousands except per POP figures).

	Disag Option 50% of Downpmt.	Prepay Option 70% of Downpmt.	100% of Downpmt.
Uses of Funds			
Purchase Licenses	270,494	378,691	540,987
per POP	\$2.66	\$3.71	\$5.31
Penalty	270,494	162,296	-
per POP	\$2.66	\$1.59	-
Avg. Lic. Cost/Pop (face)	29.21	49.38	\$47.79
Penalty % of Pop Cost	8.3%	3.1%	-
Amount of Financing Foregone⁽¹⁾	811,480	486,888	-

(1) Assume 3:1 debt:equity ratio

Recommendation 1

9

● Rationale

- ⇒ Eliminates write-off of existing investment and associated stigma.
- ⇒ C-block bidders didn't do anything wrong, and shouldn't be penalized.
- ⇒ Penalty is severe: Penalties could be as much as \$270 mm for top 20 BTAs, actual net bids for the top-20 BTAs in the F-block totaled \$292 million.
- ⇒ Impact on re-auction may be relatively minor: Only 4-6 million POPs (1.5-2.5% of total) available with incremental down payment on top 20 BTAs at average bids in the original C-Block.
- ⇒ The incremental recovery of the down payment creates a larger equity base, and facilitates incremental debt financing of approx. \$150 - \$800 million (\$1.50 - \$8.00 / pop).

Recommendation 2

10

- **Enable licensees flexible use of one or more options on an MTA basis**
 - ⇒ Permit C-block carriers to fashion optimal financeable footprint - geographic and bandwidth-wise
 - ⇒ Permit licensees to selectively reduce bandwidth - and associated FCC debt bringing per pop cost in line with the A,B,D,E and F blocks
 - ⇒ Preserve NPV and pro forma outcome integrity of the original auction

Recommendation 3

11

- **Eliminate Suspension Interest Payment**

- ⇒ C-Block auction winners have not had effective use of their licenses
- ⇒ Reduces immediate fundraising requirement
- ⇒ Insures all funds raised go to capex and operating requirements

Recommendation 4

12

● Permit C-block licensees to participate in the re-auction

- ⇒ Support original intention of C-block: foster competition and facilitate entry into PCS by small businesses and entrepreneurs
- ⇒ Enable C-block licensees to average down their license cost/ Pop
- ⇒ Enable C-block licensees to strategically adjust footprint
- ⇒ No affect on NPV or pro forma outcome of original auction
- ⇒ Create floor and/or maximize revenue generation
- ⇒ Create additional bidder demand for the spectrum which translates into higher prices

Recommendation 5

13

● Apply an NPV to the prepay option:

	<u>Original Auction</u>	<u>Status Quo</u>	<u>Prudential Recommendation</u>
Original net bid amount	\$100.0	\$100.0	\$100.0
Less down payment	10.0	10.0	10.0
Less FCC financing benefit @ 6.5%	35.0	NA	NA
Less prepayment application of NPV	NA	NA	35.0
Market Value of FCC License Debt	\$55.0	\$90.0	\$55.0

● Rationale

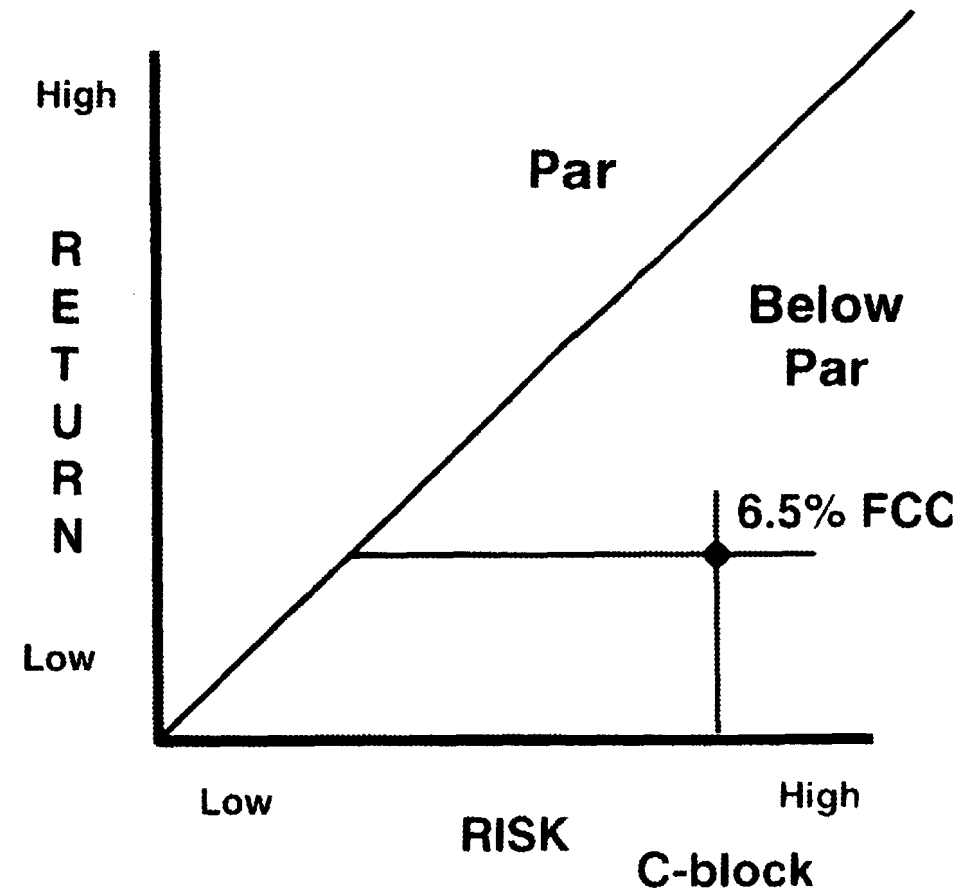
- ⇒ As currently put forth, the prepayment option actually increases the NPV of the C-block bids above the original auction results
- ⇒ Preserves NPV of original auction
- ⇒ Does not alter pro forma outcome of auction
- ⇒ Provides same economics to the FCC as original auction

Recommendation 5 (cont'd)

14

- The Government financing benefit provided a below market cost of capital to the Entrepreneur Block in order to promote:

- ⇒ Competition
- ⇒ Diversity of ownership
- ⇒ To meet Congress' mandate to create opportunities for small businesses, women and minorities



Recommendation 5 (cont'd)

15

● Analogy of Prepayment Option: Bank Mortgage

Scenario A: 10% Coupon Rate

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3.....</u>	<u>Year 28</u>	<u>Year 29</u>	<u>Year 30</u>
Cash Flows	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$110,000
NPV @ 10.0%	100,000					
Cum. Interest	300,000					

Scenario B: 6.5% Coupon Rate

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3.....</u>	<u>Year 28</u>	<u>Year 29</u>	<u>Year 30</u>
Cash Flows	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	106,500
NPV @ 10.0%	67,000					
Cum. Interest	195,000					

***NPV of lost
interest payments \$33,000***

**Cumulative Interest
Saved by Borrower \$105,000**

**Cumulative Interest
Lost by Lender \$105,000**

Recommendation 6

16

Capitalize interest for a period of four years:⁽¹⁾

IMPACT OF INTEREST DEFERRAL ON TOP 20 BTAs

Uses of Funds	Before Deferral		After Deferral	
	Per POP	Total	Per POP	Total
Infrastructure and Build Out	\$25	\$2,548,485	\$25	\$2,548,485
Working Capital and Operating Expense	10	1,019,394	10	1,019,394
License Interest	12	1,265,910	0	-
Other Interest	<u>13</u>	<u>1,274,243</u>	<u>13</u>	<u>1,274,243</u>
Total Uses of Funds	\$60	\$6,108,032	\$48	\$4,842,122
Total Cash Savings		-		1,265,910
License Debt in Five Years		\$4,868,886		\$6,288,544

Deferral reduces cash funding requirements by 30% during the first five years

(1) This scenario assumes elimination/deferral of suspension interest

Recommendation 6

17

● Rationale

- ⇒ Significantly reduces default risk
- ⇒ Reduces overall cash need to break even
- ⇒ Applies more of the proceeds to tangible assets rather than debt service
- ⇒ Enhances licensees' ability to attract investment and vendor financing
- ⇒ NPV-neutral, keeps FCC whole
- ⇒ Increases successful outcome for the C-block which preserves auction value received by the FCC
- ⇒ *Quid pro quo* - accelerated build out schedule

Summary - Keeping the FCC Whole

18

<u>Adjustment</u>	<u>Effect</u>
● 100% Recovery by C-block participants of Down Payment (Note 1)	None
● Flexibility of Options on an MTA Basis	None
● Participation in Re-Auction	None
● NPV Applied to prepayment Option	None
● Interest Deferral	None
● Re-auction of the C-Block spectrum at average prices received for the D, E and F-Blocks, adjusted for MHz, would result in proceeds off approximately <u>\$2.5 billion, or \$7.5 billion less than the original auction.</u>	

Note 1: Eliminates a 30% penalty which could generate as much as \$300 million in revenue to the FCC (approx. \$1.15 per POP).